LIETUVOS BANKAS
EUROSISTEMA

Activities of financial market participants

Banking Activity Review

2023

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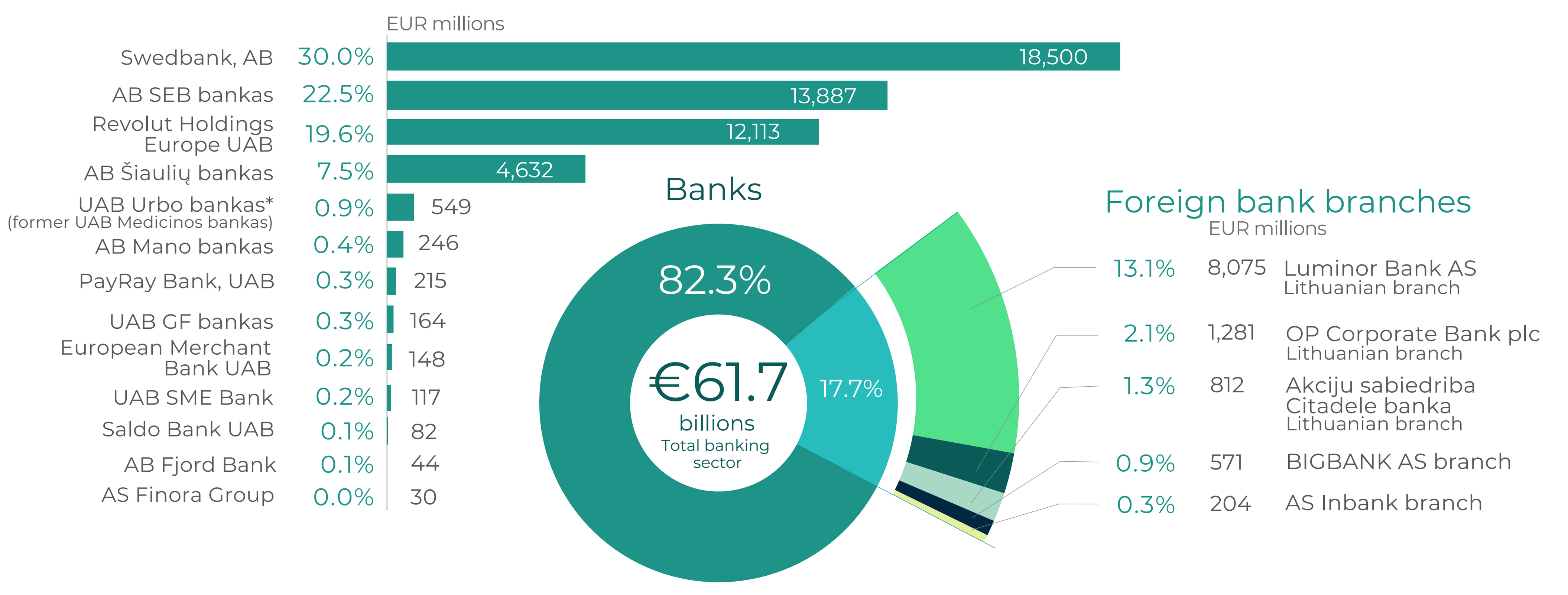
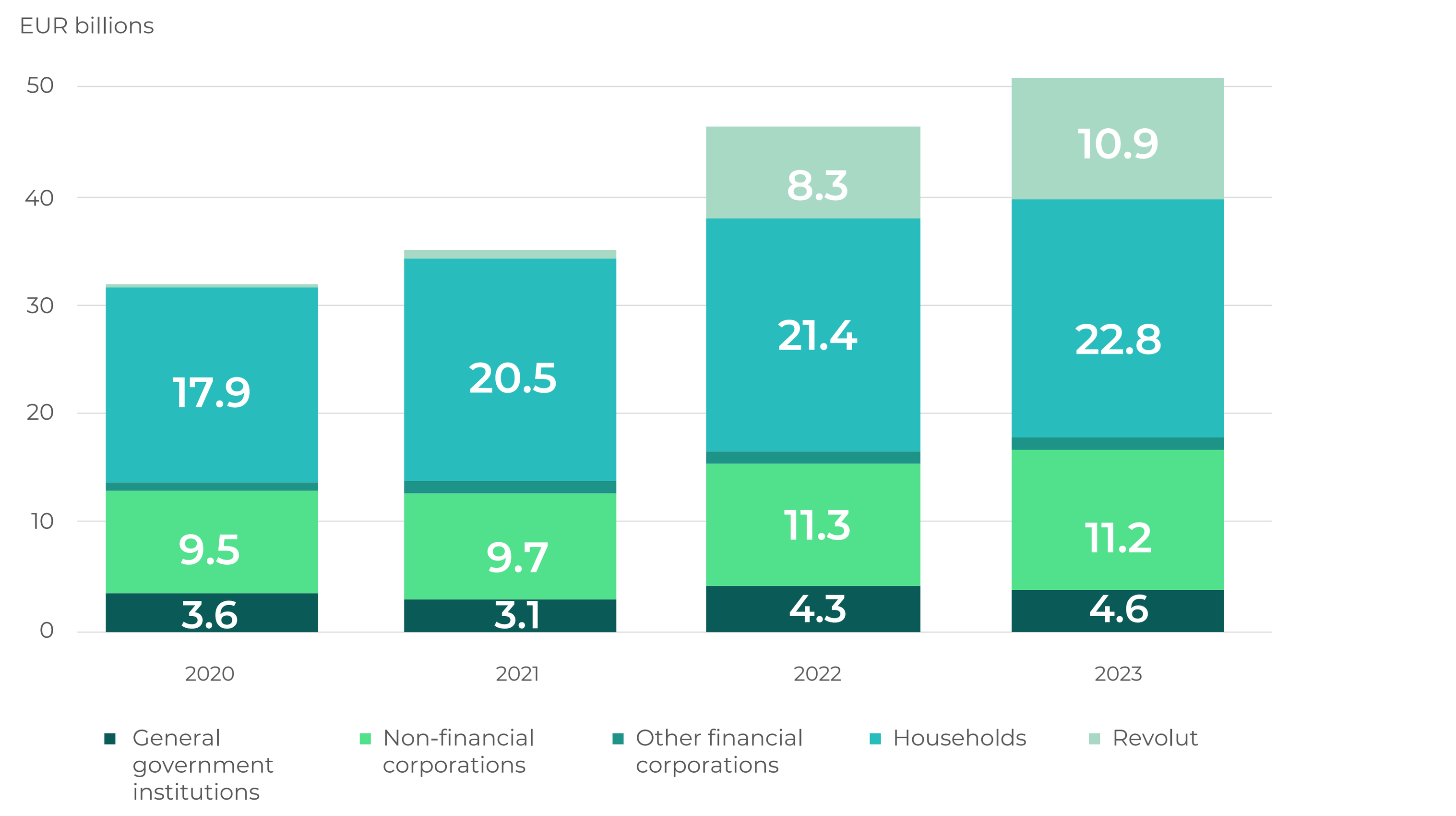
Market share by assets



*As of 1 February 2024, UAB Medicinos bankas changed the name of the bank to UAB Urbo bankas.

Deposits

+6.7%*
Households
(in 2023)

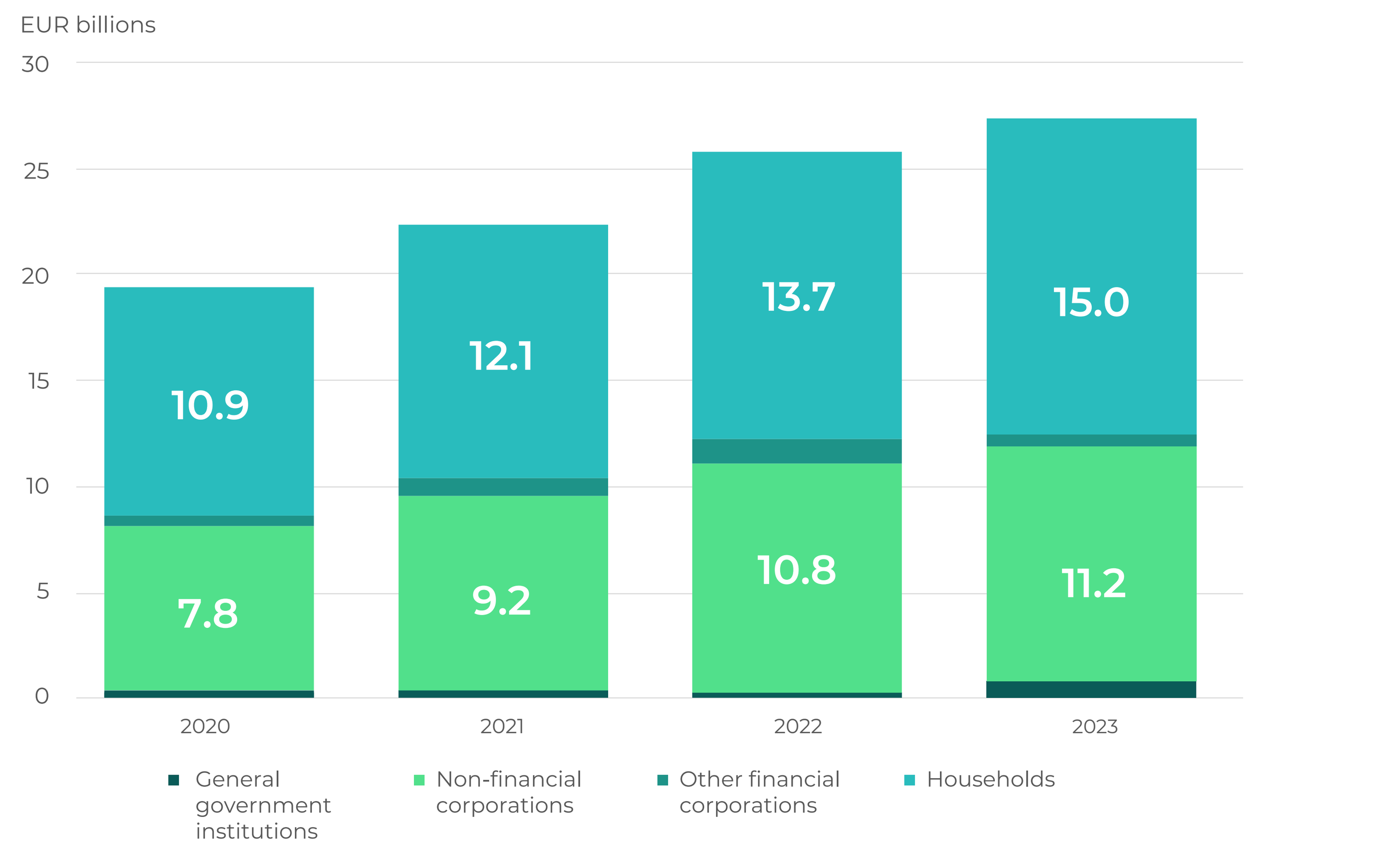


In 2023 resident deposits increased by €1.4 billion, or 6.7%*

*Non-resident deposits of Revolut Bank UAB are eliminated.

Loans

+6.1%
(+ €672 million)
Housing loans
(in 2023)



Loans to households recorded the biggest growth during the year

Compliance with prudential requirements

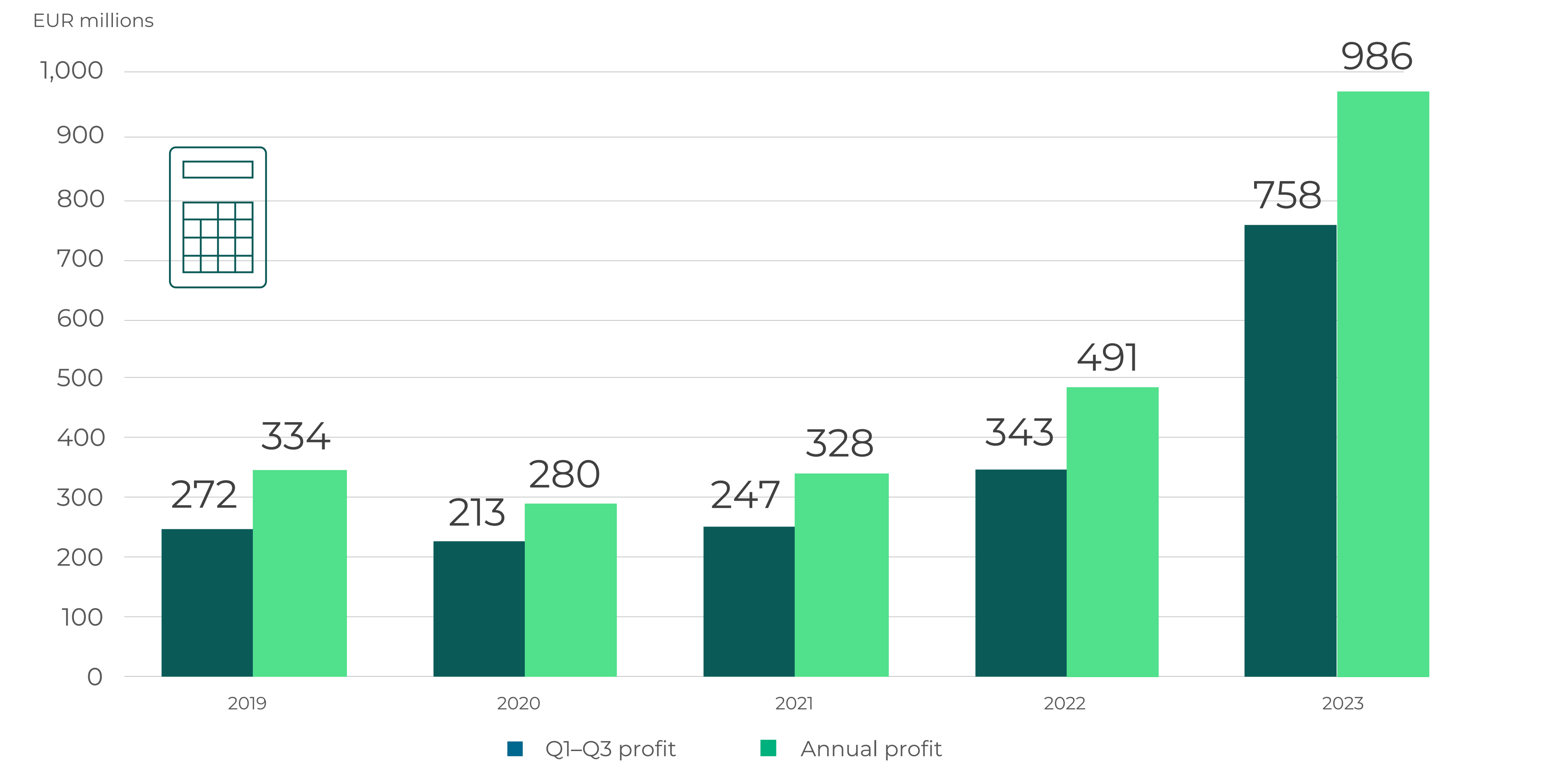
19.9%	342%	201%	6.05%
Capital adequacy ratio (CAR)	Liquidity coverage ratio (LCR)	Net stable funding ratio (NSFR)	Leverage ratio

Bank capital adequacy level remained high

Liquid assets continued to be tremendous

The leverage ratio was more than twice the minimum level

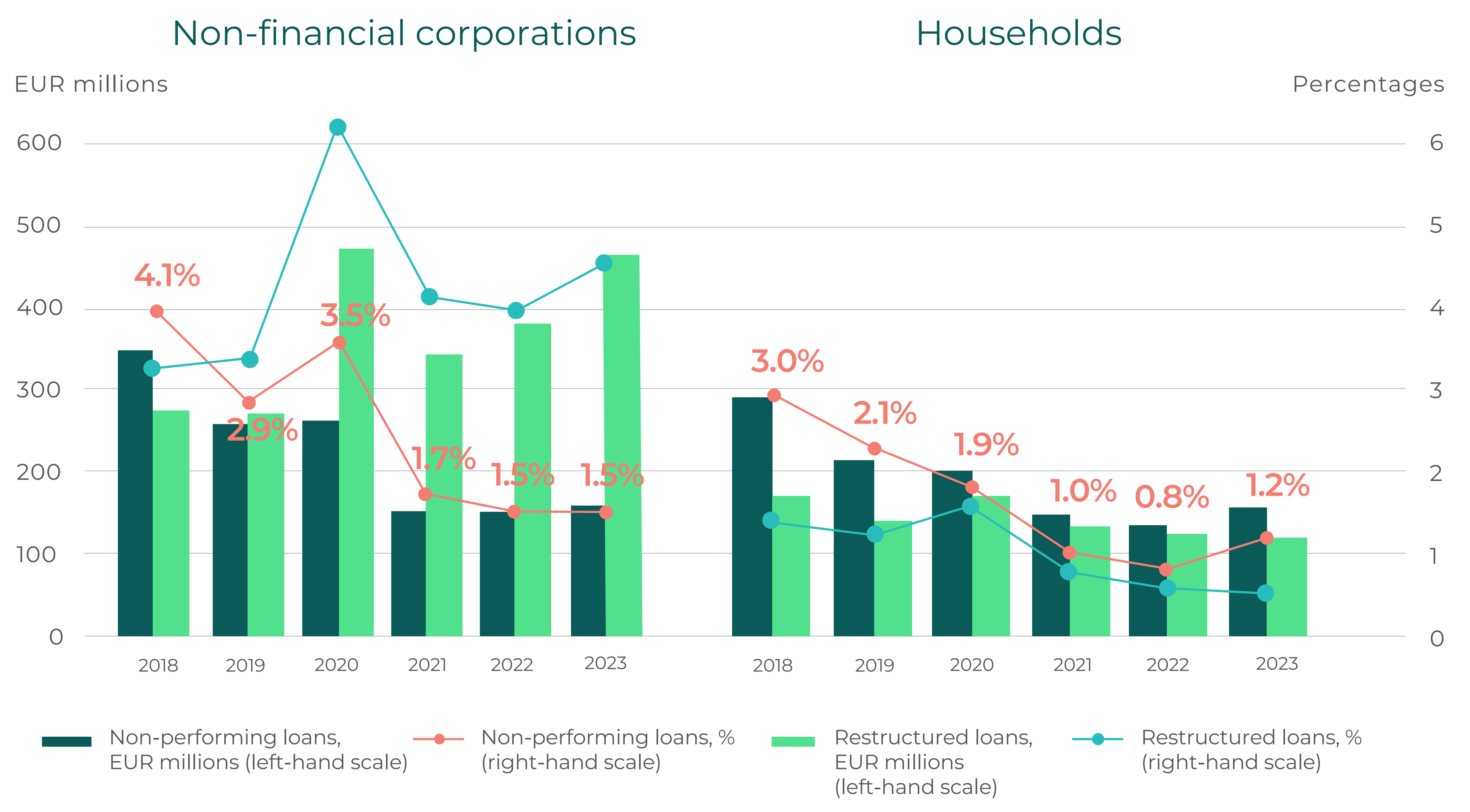
Profit



Source: Bank of Lithuania.

The banking sector recorded a historically high profitability

Loan quality 2018–2023



Source: Bank of Lithuania.

So far, no significant adverse impact on the quality of the loan portfolio has been observed

SUMMARY

Despite economic challenges and heightened geopolitical tensions, the Lithuanian banking sector achieved record profitability in 2023 by maintaining a high level of loan quality and further increasing liquidity buffers. However, the current economic and geopolitical circumstances call for vigilance, further strengthening the sector's cyber resilience, ensuring sufficient liquidity, and closely monitoring changes in the quality of the loan portfolio.

Following the European Central Bank's (ECB) decisions to increase interest rates, banks' profits in 2023 exceeded €1 billion and were twice as high as in 2022. Taking into account the exceptional circumstances, at the beginning of 2023 the Bank of Lithuania proposed to introduce a temporary solidarity contribution by allocating part of the profit (€250 million) to finance projects related to Lithuania's military mobility and military transportation infrastructure. As a result of the contribution, the profits generated by banks were reduced.

In 2023, all banks complied with the capital adequacy and liquidity requirements and banks' capital adequacy levels remained high. A significant portion of liquid assets was held in bank accounts (including those of the Bank of Lithuania).

New market participants expanded their activities and increased their asset share, but the banking sector remained concentrated. Newly established banks specialise in the small and medium-sized enterprises (SME) and consumer credit segments, with several market players actively providing payment services, leading to increased competition in these areas.

The challenges in 2023 did not stop lending activities, with bank loan portfolios increasing by €4.6 billion (15.5%) over the year to almost €35 billion. A slowdown in economic growth and rising interest rates have slightly deteriorated the quality of the loan portfolio, but the level of specific provisions remains lower than the average of euro area banks.

Deposits continued to grow in 2023, albeit at a slower pace than in 2022. As interest rates rose, demand deposits were rapidly converted into time deposits. Deposit platforms which have recently gained ground in Europe provide an additional liquidity management tool for banks operating in Lithuania.

In 2023, the scale of financial fraud (both in terms of the number of cases and the size of losses) continued to increase. Banks reported over 10,000 fraud cases – a 33% increase compared to 2022. More active efforts by banks to stop suspicious payment transactions helped to avoid larger losses, with the value of such transactions totalling over €7 million. In 2023, data phishing and investment fraud saw the most significant increase and continued to dominate.

The number of cyber incidents affecting banks decreased in 2023, but the level of cyber risk remained high. All incidents stemmed from distributed denial-of-service (DDoS) attacks, which typically had a short-term impact on the availability of online banking services in Lithuania.

BANKING SECTOR DEVELOPMENTS

There are currently 18 participants operating in the Lithuanian banking sector: six banks hold banking licences, seven banks have specialised banking licences, and five banks operate as foreign bank branches.

In 2023, the number of participants in the banking sector decreased by one: Danske Bank A/S Lithuanian branch finally closed its banking business in Lithuania in the second quarter of 2023 (the Danske Bank technology and service centre continues to operate in Vilnius), and no new bank or specialised bank licences were issued in 2023. However, in mid-February 2023, Saldo Bank UAB commenced banking activities (it was granted a specialised bank licence in October 2021). As of 1 February 2024, UAB Medicinos bankas changed its name to UAB Urbo bankas.

Together with the ECB, the Bank of Lithuania is currently assessing one application for a specialised bank licence.

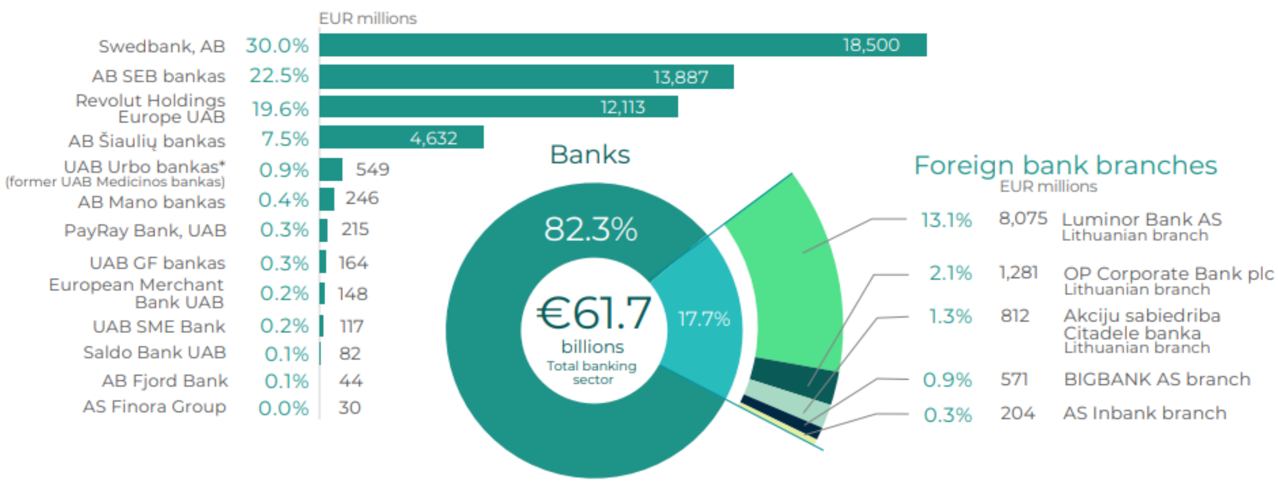
Table 1. Banking sector participants and their status (data as of 1 April 2024)

Bank (6 participants)	**Specialised bank** (7 participants)	**Foreign bank branch** (5 participants)
Swedbank, AB	AB Mano bankas	BIGBANK AS branch
AB SEB bankas	UAB GF bankas	OP Corporate Bank plc Lithuanian branch
Revolut Bank UAB	European Merchant Bank UAB	Luminor Bank AS Lithuanian branch
AB Šiaulių bankas	UAB SME Bank	AS Citadele banka Lithuanian branch
UAB Urbo bankas	Finora Bank UAB	AS Inbank branch
PayRay Bank, UAB	AB Fjord Bank	
	Saldo Bank UAB	

Source: Bank of Lithuania.

New market participants expanded their activities and increased their asset share, however, the banking sector remained concentrated. The two largest banks operating in Lithuania – Swedbank, AB, and AB SEB bankas – hold more than half (52.5%) of the market in terms of assets. The third largest in terms of asset size, with the highest level of consolidation, is Revolut Holdings Europe UAB (19.6%). The market share of AB Šiaulių bankas, the fourth-largest bank by size, accounted for 7.5% of total assets. Since the beginning of 2024, the four largest banks operating in Lithuania are directly supervised by the ECB.

Chart 1. Banks and foreign bank branches operating in Lithuania by assets as of 1 January 2024



In 2023, the total assets of the other nine banks increased by 24.4% to €1.6 billion (€1.3 billion the previous year), accounting for 2.6% of the market.

These market participants specialise in the SME lending and consumer credit segments, with several actively providing payment services, leading to increased competition in these areas. However, in the Lithuanian banking sector, the gap between larger, longer-established banks and specialised banks remains substantial, despite the recent growth in activity levels.

Foreign bank branches account for 17.7% of the market, with the Lithuanian branch of Luminor Bank AS still holding the largest share.

In 2023, the Bank of Lithuania and the ECB examined several applications for banking licences and actively assessed acquisitions of already licensed banks (including one of the largest merger transactions in the Lithuanian financial market in 2023), **changes in leadership, as well as requests to establish branches in other European Union (EU) states and amend articles of association regarding the increase in the authorised capital and bank holding companies.** During the period under review, authorisation processes were related to the credit union reform, new projects, and regular banking activities.

The Bank of Lithuania and the ECB note that in recent years applicants have been paying increasing attention to proper preparation for various authorisation processes and related activities, and that they apply for a preliminary assessment, which often serves as the basis for success. Additionally, they pay attention to significant risks identified in applications related to the sustainability of the planned business model, qualifications and experience of candidates proposed for executive positions in the bank, and the suitability of investors.

In 2023, recasts of the Guidelines for the Assessment of Members of the Management Body and Key Function Holders of Financial Market Participants Supervised by the Bank of Lithuania, the Rules for the Submission of Notifications on the Acquisition and Disposal of a Qualifying Holding of the Authorised Capital and/or Voting Rights in Financial Market Participants under Supervision of the Bank of Lithuania, and the General Regulations on the Submission and Examination of Applications for Authorisation of Financial Market Participants Supervised by the Bank of Lithuania and the Granting of Authorisation came into force. The amendments relate to the information provided to the Bank of Lithuania and the ECB during the authorisation processes, with particular emphasis on encouragement and, in certain cases, obligation to use the Single Supervisory Mechanism information management system portal.

In 2023, the discussions started on the recast of the Description of the Procedure for Granting Authorisation to Register Amendments to the Articles of Association of a Bank, which should contribute to the optimisation of the submission and evaluation process of such requests.

The Bank of Lithuania recommends monitoring authorisation news on the regularly updated Bank of Lithuania website, participating in consultations organised by the Bank of Lithuania, and proactively engaging in shaping effective authorisation practices.

ASSETS AND LIABILITIES

In 2023, deposits in banks increased, they were directed towards increasing the liquidity buffer. Funds held in bank accounts, including those of the Bank of Lithuania, rose, and investments in securities grew. Bank assets in Lithuania grew by €6.1 billion (10.9%) over the year, to €61.7 billion.[1]

The net value of loans granted to customers, which continues to be the largest asset item of banks, increased by €1.6 billion (6.0%) to €27.5 billion (for more details on loans, see the chapter "Loan portfolio").

During the period under review, funds held by banks with the central bank grew by €0.22 billion (1.2%) to €19.1 billion. Additionally, banks held €0.4 billion in cash (slightly less than a year ago). Funds held with other credit institutions almost doubled – from €4 billion to €7 billion. Over the year, cash and liquid assets held with banks grew by €3.2 billion (13.7%) to €26.6 billion. By the end of the year, cash and liquid assets held with banks accounted for 43% of bank assets, making it the second-largest asset category, closely behind loans.

The portfolio of securities held by banks increased by €1.2 billion (23.2%) year on year to €6.4 billion, accounting for 10.4% of bank assets.

Chart 2. Dynamics of assets of the banking sector
(2018–end of 2023)

Source: Bank of Lithuania.

[1] The review is based on unaudited data. Should the banking sector participants adjust their statements, the data of the review may be revised.

Liabilities increased due to the growth of deposits. In 2023, all deposits increased by €4.4 billion (9.4%) to €50.8 billion. Excluding the impact of the Revolut Group, the deposit growth was nearly €1.7 billion (4.4%). Deposits remain the main source of funding for banks, accounting for 88% of bank liabilities (for more details on deposits, see the chapter "Deposits with banks").

After two banks reduced their borrowing in longer-term refinancing operations (LTRO) conducted by the ECB, central bank deposits decreased from €1.6 billion to €0.5 billion year on year (or 0.9% of all liabilities). Liabilities to credit institutions (mainly parent institutions) grew by 48% over the year and stood at nearly €3 billion (5% of total liabilities).

COMPLIANCE WITH REQUIREMENTS

Although the capital adequacy ratio slightly decreased, banks remained well capitalised in 2023. Compared to 2022, the capital adequacy ratio dropped from 20.32% to 19.94%, as risk exposures grew faster than the capital base. Banks operating in Lithuania predominantly had capital instruments of the highest quality; therefore, their common equity tier 1 capital (CET1) ratio stood at 18.61%.

All banks complied with their capital adequacy requirements indicated in Table 2. They are currently subject to the Pillar 1 capital adequacy requirement of 8.0% and the Pillar 2 capital requirement which is set individually.

Table 2. Capital adequacy ratios and current capital requirements
(1 January 2023–1 January 2024)

Name	Actual value, %		Requirement*, %
	01/01/2023	01/01/2024	
Swedbank, AB	18.8	19.7	9.8
AB SEB bankas	18.8	18.4	10.12
AB Šiaulių bankas	16.1	22.4	10.05
Revolut Holdings Europe UAB	24.1	21.6	11.7
UAB Urbo bankas	20.7	20.9	9.7
PayRay Bank, UAB	27.1	14.6	8.0**
AB Mano bankas	16.3	20.4	11.9
UAB GF bankas	18.2	16.4	11.79
European Merchant Bank UAB	22.3	16.2	10.3
UAB SME Bank	15.1	17.9	13.55
AB Fjord Bank	24.4	14.6	8.0**
AS Finora Group	20.5	14.0	8.0**
Saldo Bank UAB	-	39.6	8.0**
Banking sector	20.3	19.9	–

Source: Bank of Lithuania.

* The indicated capital requirements include Pillar 1 and Pillar 2 requirements.

** Pillar 2 requirements for these banks will be set for the first time in 2024.

Additionally, banks are subject to the recommended Pillar 2 guidance (P2G) and the combined capital buffer requirement, comprised of the capital conservation buffer requirement (2.5%), the countercyclical capital buffer requirement (1.0%),[2] and the other systemically important institution buffer requirement (1.0–2.0%).[3]

Although banks were well-capitalised, only a few of them decided to allocate part of their profits to dividends. Last year, dividends for 2022 were paid by AB SEB bankas (€85 million), AB Šiaulių bankas (€32.5 million), and UAB GF bankas (€1.04 million). However, the majority of banks remained conservative and allocated their profits to increase the capital buffer.

The banking sector further maintained a high leverage ratio. According to the data as at 1 January 2024, the leverage ratio increased by 0.21 percentage points over the year, amounting to 6.1%, and was more than double the established minimum threshold (3%).

The liquidity of the banking sector remained strong in 2023: banks with significant reserves met the established liquidity ratios, and the reserves of liquid assets held with banks were significant. The accumulated large reserves of liquid assets allowed banks participating in the ECB targeted longer-term refinancing operations (TLTRO) and LTRO to return funds before maturity without attracting additional financing.

In 2023, the liquidity coverage ratio (LCR) of the banking sector declined from 390% to 342% and was almost three times above the minimum threshold, i.e. the liquidity buffer held by banks was three times higher than the one-month loss of cash flow. Excluding Revolut Holdings Europe UAB, which has a specific business model with a high liquidity ratio and significant impact on the average liquidity ratio of the banking sector, the LCR would have declined slightly less in 2023, from 270% to 252%. The decrease in liquidity of the banking sector was caused by the reduction of excess liquidity in major banks and the increased credit portfolio in some banks.

The liquidity ratios of Lithuanian banks continue to be much higher than in most European countries. For comparison: the average LCR[4] of banks in EU Member States participating in the Single Supervisory Mechanism was approximately 159% for systemically important banks, and 204% for less important banks. The net stable funding ratio (NSFR) stood at 126% and 130%, respectively.

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[2] In October 2022, the Board of the Bank of Lithuania set the countercyclical buffer rate of 1%, bringing it back to the pre-pandemic level. Banks will have one year to build up a countercyclical capital buffer, as the 1% rate came into effect on 1 October 2023.

[3] At the end of 2023, the Board of the Bank of Lithuania reviewed the additional capital ratios of other banks of systemic importance. The requirements remained unchanged for Swedbank, AB, and AB SEB bankas – set at 2%, for AB Šiaulių bankas – at 1% of risk-weighted assets, while the requirement for Revolut Bank UAB was increased from 1% to 2% of risk-weighted assets (this higher requirement will apply from 1 July 2024).

[4] The ECB Data Portal's data for the third quarter of 2023.

Table 3. Liquidity coverage ratios of banks
(1 January 2023–1 January 2024)

Name	01/01/2023	01/01/2024
Swedbank, AB	367.85	270.69
AB SEB bankas	165.95	232.73
AB Šiaulių bankas	183.76	216.94
Revolut Holdings Europe UAB	1,436.51	620.11
UAB Urbo bankas	418.61	469.14
PayRay Bank, UAB	1,683.85	1617.35
AB Mano bankas	229.06	194.32
UAB GF bankas	432.82	248.19
European Merchant Bank UAB	306.8	154.87
UAB SME Bank	174.52	310.17
AB Fjord Bank	2,210.98	484.91
AS Finora Group	250.63	161.18
Saldo Bank UAB	-	6,868.00
Banking sector	389.56	341.97

Source: Bank of Lithuania.

Moreover, banks met the requirement for the second mandatory liquidity ratio, the NSFR, which reflects the stability of long-term funding, with sufficient reserves. Throughout 2023, the banking sector's NSFR was twice as high as the required minimum of 100%, standing at 201% at the end of the year.

Table 4. Net stable funding ratios of banks
(1 January 2023–1 January 2024)

Name	01/01/2023	01/01/2024
Swedbank, AB	218.3	213.04
AB SEB bankas	125.97	142.92
AB Šiaulių bankas	137.6	142.98
Revolut Holdings Europe UAB	892.14	409.62
UAB Urbo bankas	163.31	167.78
PayRay Bank, UAB	155.96	186.13
AB Mano bankas	202.28	197.30
UAB GF bankas	130.44	140.34
European Merchant Bank UAB	231.07	218.12
UAB SME Bank	169.98	156.89
AB Fjord Bank	146.69	133.15
AS Finora Group	177.62	134.90
Saldo Bank UAB	-	204.16
Banking sector	198.28	200.64

Source: Bank of Lithuania.

Customer deposits continue to be the main source of funding for banks operating in Lithuania, and the price paid for these deposits significantly increased in 2023. The rise in key ECB interest rates, which started in mid-2022 and continued throughout 2023, was reflected in the pricing of interest rates paid by all banks in Lithuania for time deposits. According to the Bank of Lithuania data, the average interest rates applied by Lithuania's monetary financial institutions to households in the euro area on new euro-denominated deposits went up by more than three times, from 1.02% to 3.53%.

LOAN PORTFOLIO[5]

DEVELOPMENTS IN THE LOAN PORTFOLIO

In 2023, economic and geopolitical challenges did not stop lending activities – the portfolio of bank loans and other advance payments increased by €4.60 billion (15.5%) to €34.22 billion. The loan portfolio, excluding positions with credit institutions and central banks (hereinafter – the loan portfolio), grew by €1.56 billion (6.0%) to €27.51 billion.

Loans to households, which comprised the largest share (43.9%) of the bank loan portfolio, grew by €1.32 billion (9.7%) over the year, to €15.02 billion. Similarly, housing and consumer loans also increased: the housing loan portfolio grew by €0.67 billion (6.1%) to €11.67 billion, while the consumer loan portfolio expanded by €0.60 billion (41.4%) to €2.06 billion. Unlike housing loans, consumer loans grew rapidly during all quarters, but loans to non-residents of Lithuania made up the bulk of all newly granted loans (due to the expansion of lending activities abroad by market participants). In the housing loan segment, the market share of the three major domestic banks continued to slightly contract (decreasing by 1.2% annually), reaching 89.6%, while banks specialising in this segment remained more active in lending for consumption purposes.

Loans to non-financial corporations, another sizeable part of the bank loan portfolio (32.8% of the portfolio), increased in 2023 by €0.46 billion (4.3%) to €11.24 billion. The main growth was seen in loans to companies operating in the construction sector (by €143 million), followed by the transportation and storage sectors (€120 million), while loans to companies in the manufacturing sector decreased (by €69 million). The total value of banks' lending commitments to non-financial corporations increased by 6.9% and stood at €3.31 billion.

Different factors influenced the changes in loan portfolios of other financial institutions and government institutions. The year-on-year growth of the portfolio of loans to financial corporations (excluding credit institutions) dropped by €0.70 billion to €0.44 billion, as one banking group made a decision in the third quarter of 2023 to transfer financing for a group company operating in Lithuania to another country. Meanwhile, the loan portfolio of government institutions increased by €0.47 billion to €0.81 billion. However, this growth is associated with the investment of funds by one market participant in other EU countries.

LOAN PORTFOLIO QUALITY

In 2023, the quality of the loan portfolio slightly deteriorated. The share of non-performing loans (including loans to credit institutions) increased by 0.09 percentage points to 1.00%, their gross carrying amount was €72.1 million (27.6%) higher than at the beginning of the year. The volume of non-performing loans of non-financial corporations increased by €2.70 million to €148.8 million (constituting 1.45% of business loans), while household non-performing loans grew by €69.2 million to €184.0 million (1.2% of resident loans).

The volume of loans with significantly increased credit risk since initial recognition also grew much faster in the household portfolio than in the corporate portfolio, by €194.9 million (19.3%) and €83.7 million (5.7%),

[5] Including the leasing portfolio.

respectively. The share of such loans in the portfolios of individuals and businesses increased by 0.4 percentage points to 10.5%.

The share of loans overdue by more than 30 days increased by €50.9 million to €192.0 million, their share in the loan portfolio rose to 0.56%: overdue loans in the non-financial corporation segment increased by 0.11 percentage points (to 0.54%), while in the household segment it was up by 0.18 percentage points (to 0.87%).

Despite faster growth in higher-risk household loans, the volume of consumer loan restructuring continued to decline during the post-pandemic period, decreasing by €8.0 million (8.1%) during the period under review. Business loan restructuring increased by €98.6 million (26.2%). The total share of restructured loans rose by 0.03 percentage points over the year, to 1.6% of the total loan portfolio.

Ongoing economic uncertainty impacted the expenses on provisions of many banks. In 2023, banks incurred a loan impairment loss of €86.4 million. The loan-to-special provisions ratio grew by 0.21 percentage points and stood at 1.13% at the end of the year, while the ratio of non-performing loan coverage with special provisions dropped by 0.2 percentage points to 35.6% (that of business to 26.2% and that of households to 43.2%).

DEPOSITS WITH BANKS

During the period under review, deposits continued to grow, but their growth rate was lower than in 2022. Last year, total deposits increased by €4.4 billion (9.4%) to €50.8 billion, and excluding the impact of the Revolut Group, the deposit growth was nearly €1.7 billion (4.4%).

At the end of 2023, deposits held by the Revolut Group amounted to nearly €11 billion. It should be noted that deposits of this bank's non-resident customers in various EU countries represent 98% of the bank's deposits. Last year, deposits held by the Revolut Group increased by €2.7 billion, or 32% (deposits of other participants in the banking sector rose by 4.4%).

Deposits (excluding the impact of the Revolut Group) increased in the segments of residents, government institutions, and other financial institutions, while deposits of non-financial corporations decreased slightly. The increase in resident deposits had the largest impact on deposit growth, excluding the impact of the Revolut Group (€1.4 billion, or 6.7%). Deposits of non-financial corporations decreased very slightly – by €69 million (or 0.6%).

As a rule, the last quarter of the year saw the highest deposit growth, with total deposits increasing by €2.3 billion (6%) in the fourth quarter of 2023, driven by settlements with suppliers, transfers of wages and bonuses before the end of the year.

As interest rates rose, deposits were rapidly converted into time deposits. In 2023, the share of time deposits increased from 13% to 26% of customer deposits (excluding the Revolut Group, as almost all of its deposits are on-demand).

Deposit platforms which have recently gained ground in Europe provide an additional liquidity management tool for banks operating in Lithuania, i.e. the opportunity to collect deposits not only from Lithuanian residents but also in the much broader market of all EU countries. Deposits attracted through deposit platforms from residents of other EU countries increased to €594 million, and their share in the deposit portfolios of banks operating in Lithuania remained small (1.9% with banks excluding the Revolut Group). Deposit platforms provide not only broader financing options for banks but also opportunities for Lithuanian residents to place deposits with banks from other EU countries offering such services.

PROFITABILITY AND OPERATING EFFICIENCY

Against the backdrop of high inflation and weaker economic growth, the banking sector recorded exceptionally high profitability indicators. According to unaudited data, in 2023, Lithuania's banking sector earned a profit of €986 million which is twice as much as in 2022. Fourteen banks and foreign bank branches were profitable, while four banks incurred a loss. All banks that operated at a loss incurred a total loss of €9.7 million, these are the recently established specialised banks, whose operating expenses are higher than their income.

The increased interest rates as a result of ECB decisions had a considerable impact on the growth of banks' interest income. Although interest expenditure (due to increased deposit interest rates) also rose, the absolute value increase was significantly lower than the growth in interest income. Compared to 2022, banks' interest income nearly tripled, reaching €2.5 billion (compared to €903 million in 2022). In contrast, interest expenditure increased nearly fivefold to €464 million (compared to €99.7 million in 2022). In 2023, the net interest income of all banks was 2.5 times higher than in 2022, totalling over €2 billion.

Part of the profit earned by banks and foreign bank branches in 2023 was allocated to finance the country's military mobility and military transport infrastructure projects, with €250 million transferred to the national budget as a solidarity contribution. It is forecasted that the solidarity contribution for 2024 could amount to around €220 million.

As banks expanded the range of services offered, the volume of services provided also increased, leading to further growth in net service and commission income. In 2023, net service and commission income expanded by €235 million, or 39%, reaching almost €844 million. This growth was mainly driven by a year-on-year increase of €133 million, or 32%, in income related to payment services.

The performance indicators of banks were affected by the increasing administrative expenses in 2023, which rose by almost €54 million compared to 2022, reaching €809 million (about 40% of these expenses were personnel costs). The impact of the decrease in loan value on bank profitability was slightly greater than the previous year: in 2023, the loan value decreased by €86.4 million, compared to €81.0 million in 2022.

Over the period under review, bank efficiency indicators improved due to rising interest income. The efficiency indicator, which reflects the cost-to-income ratio, comprised 39.3% as of 1 January 2024, declining (improving) by 14.8 percentage points over the year. Return on assets stood at 1.68% and return on equity was 23.47% at the end of 2023.

FRAUD AND CYBER INCIDENTS

The data from the Center of Excellence in Anti-Money Laundering (AML Center) shows that in **2023, the scale of financial fraud (the number of cases and the amount of losses) continued to increase.** Banks reported more than 10,000 fraud cases, representing an increase of 33%, compared to 2022. The amount swindled by fraudsters increased by 3.9% year on year, reaching €12.3 million. Banks managed to recover almost €900,000 from this amount, so the actual losses amounted to €11.4 million. Bigger losses were avoided due to the more active efforts of banks to stop suspicious payment transactions – the value of such payment transactions amounted to more than €7 million. Last year, data phishing and investment fraud saw the most significant growth and continued to dominate.

On the other hand, despite the continuous growth in the scale of financial fraud (since 2020, fraudster activity has been steadily increasing – the number of fraud cases recorded by banks during this period has increased more than seven times), positive trends have also been observed. The data from the AML Center discussed above show that the dynamics of the growth in the scale of financial fraud have slowed down for several years now, and as mentioned, in 2023 banks managed to recover more funds from affected customers and stop more suspicious payment transactions than in 2022 or in previous years. For example, comparing 2020 and 2021, the size of losses incurred by payment service users was twice as high (increasing from €4.8 million to €10.2 million). In subsequent years, customer losses continued to increase, but at a slower pace: the amount of funds transferred in 2022 amounted to €11.8 million, while in 2023 it reached €12.3 million, resulting in a change of 3.9% year on year.

However, due to the increasing number and complexity of financial fraud cases, financial fraud remains one of the most challenging issues in the financial sector, and one of the most common cyber incidents. Accordingly, preventing financial fraud remains one of the strategically important directions of the Bank of Lithuania's activities.

In 2023, the main tasks of the Bank of Lithuania were related to educating financial service users and providing proposals for specific measures in line with best market practices for fraud prevention to financial market participants. Continuous efforts are made to promote interinstitutional cooperation to ensure effective implementation of fraud prevention measures and initiatives. In the summer of 2023, the Bank of Lithuania's Centre for Financial Literacy organised an informational campaign called "Stay Alert – Scammers Don't Take Vacations!" aiming to raise awareness among payment service users about the increasing scale of fraud. Its goal was to remind people about the types of scams, how to recognise them, and how to ensure the security of their money and data. Additionally, at the end of 2023, a strategic board game called "Fraudster Web: Learn to Protect Your Money and Personal Data" was introduced. Its purpose is to help payment service users develop skills to avoid fraud. Furthermore, recognising the need for financial market participants to continue strengthening their resilience to cyber threats, especially financial fraud, the Bank of Lithuania developed the Fraud Prevention Guidelines, which will come into effect on 1 May 2024. The aim of these guidelines is to improve the management of financial fraud risk by financial market participants, enhance the effectiveness of preventive measures, contribute to better monitoring, evaluation, and mitigation of fraud risk, as well as increase the protection of payment service users and improve their ability to recognise and guard against fraud.

The number of cyber incidents affecting banks decreased in 2023, but the cyber risk level remained high. Most of them were caused through DDoS attacks, which typically had a short-term impact on the availability of online banking services in Lithuania. To strengthen the cyber resilience of the Lithuanian credit institutions, the Bank of Lithuania conducted supervisory actions, including on-site inspections, provided recommendations, promoted the provisions of Regulation (EU) 2022/2554 on digital operational resilience for the financial sector, and encouraged credit institutions to share cyber intelligence.

ANNEX. KEY INDICATORS OF THE BANKING SECTOR[6]

Table 1. Main items of the balance sheet statement

No	Indicator	01/01/2023, EUR millions	01/10/2023, EUR millions	01/01/2024, EUR millions	Quarterly change, %	Annual change, %
1.	Assets	55,609.1	57,030.7	61,669.8	8.1	10.9
1.1.	Debt securities	5,223.3	5,892.8	6,437.5	9.2	23.2
1.2.	Equity securities	63.3	65.0	82.0	26.1	29.5
1.3.	Financial derivatives	147.3	115.8	81.7	-29.4	-44.5
1.4.	Cash	484.5	458.3	435.5	-5.0	-10.1
1.5.	Funds with central banks	18,855.6	15,328.7	19,040.9	24.2	1.0
1.6.	Funds with credit institutions	4,005.8	7,517.2	7,047.5	-6.2	75.9
1.7.	Loans to customers (incl. leasing)	25,951.0	26,619.5	27,508.8	3.3	6.0
1.7.1.	to general government institutions	335.4	336.6	805.7	139.4	140.2
1.7.2.	to other financial corporations	1,141.8	478.5	443.3	-7.4	-61.2
1.7.3	to non-financial corporations	10,777.1	11,063.7	11,238.8	1.6	4.3
1.7.4.	to households	13,696.7	14,740.7	15,021.1	1.9	9.7
1.7.4.1	o/w loans for house purchase	10,993.8	11,526.5	11,666.2	1.2	6.1
1.8.	Other asset positions	878.3	1033.4	1035.80	0.2	17.9
2.	Liabilities and equity	55,609.1	57,030.7	61,669.8	8.1	10.9
2.1.	Deposits of central banks	1,615.5	488.9	493.0	0.8	-69.5
2.2.	Liabilities to credit institutions	1,996.0	2,181.7	2,955.9	35.5	48.1
2.3.	Financial derivatives	103.7	70.0	70.3	0.5	-32.2
2.4.	Deposits	46,400.3	47,789.9	50,768.0	6.2	9.4
2.4.1.	of general government institutions	4,292.8	4,354.7	4,585.7	5.3	6.8
2.4.2.	of other financial corporations	1,452.8	1,465.5	1,654.7	12.9	13.9
2.4.3	of non-financial corporations	12,535.4	12,288.8	12,960.3	5.5	3.4
2.4.4.	of households	28,119.3	29,680.9	31,567.3	6.4	12.3
2.5.	Debt securities outstanding	180.5	238.1	283.3	19.0	57.0
2.6.	Other liability positions	2,078.3	2,350.9	2,893.7	23.1	39.2
2.7.	Equity	3,234.8	3,911.2	4,205.6	7.5	30.0

Source: Bank of Lithuania.

[6] Should banks adjust their statements for important reasons, the data of the Review after this date may be updated. Data as at 01/01/2024 are unaudited.

Table 2. Main items of the profit (loss) account

No	Indicator	01/01/2023, EUR millions	01/10/2023, EUR millions	01/01/2024, EUR millions	Quarterly change, %	Annual change, %
3.	Current year profit	490.9	757.5	986.1	–	100.9
3.1.	Net interest income	804.2	1,460.4	2,032.3	–	152.7
3.2.	Net income from fees and commissions	609.2	592.2	844.3	–	38.6
3.3.	Administrative expenses	755.3	567.7	809.2	–	7.1
3.4	Loans and non-financial assets impairment	80.7	47.1	87.1	–	7.9

Source: Bank of Lithuania.

Table 3. Other performance indicators

No	Indicator	01/01/2023, %	01/10023, %	01/01/2024, %	Quarterly change, percentage points	Annual change, percentage points
4.	Capital adequacy ratio	20.32	19.94	19.94	0	-0.38
5.	CET1 capital adequacy ratio	20.09	18.59	18.61	0.02	-1.48
6.	Liquidity coverage ratio	389.56	434.45	341.97	-92.48	-47.59
7.	Net stable funding requirements	198.28	192.72	200.64	7.92	2.36
8.	Leverage ratio	5.84	6.40	6.05	-0.35	0.21
9.	Net interest margin	1.55	3.45	3.57	0.12	2.02
10.	Return on assets	1.00	1.79	1.68	-0.11	0.68
11.	Return on equity	14.19	24.71	23.46	-1.25	9.27
12.	Efficiency indicator (EBA methodology)	54.06	38.09	39.27	1.18	-14.79
13.	Non-performing debt instruments	0.46	0.58	0.56	-0.02	0.1

Source: Bank of Lithuania.